

## Message Text

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ACTION H-03

INFO OCT-01 ARA-10 ISO-00 SS-15 NSC-06 AID-01 /036 W  
-----109296 102206Z /63

R 102034Z JAN 78  
FM AMEMBASSY SANTIAGO  
TO SECSTATE WASHDC 7746  
INFO AMEMBASSY BRASILIA  
AMEMBASSY SAN JOSE

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E. O. 11652: N/A  
TAGS: OVIP (CODEL REUSS)  
SUBJECT: CODEL REUSS - SANTIAGO VISIT

1. SUMMARY. THE FORTY-HOUR SOJOURN IN SANTIAGO OF CODEL REUSS, LED BY REP. WILLIAM S. MOORHEAD, WAS HIGHLY SUCCESSFUL. CODEL ENJOYED BRIEFING BY FINANCE MINISTER SERGIO DE CASTRO AND OTHER LEADERS OF GOC ECONOMIC TEAM. WELL-ATTENDED RECEPTION BY AMBASSADOR INCLUDED HUMAN RIGHTS AS WELL AS ECONOMIC AND POLITICAL LEADERS. VISIT CONCLUDED WITH INSPECTION OF KEY IDB SITES NEAR SANTIAGO. PRESS COVERAGE WAS FULL AND FAVORABLE. END SUMMARY.

2. BRIEFINGS. SHORTLY AFTER ARRIVAL 1:30 P.M. FRIDAY, JANUARY 6, CODEL RECEIVED POLITICAL AND ECONOMIC BRIEFING FROM AMBASSADOR LANDAU. CODEL'S PRINCIPAL INTEREST WAS ON NATIONAL CONSULTATION (PLEBISCITE) HELD ON JANUARY 4. ENTIRE GROUP THEN ADJOURNED TO FOREIGN MINISTRY WHERE FINANCE MINISTER DE CASTRO PRESENTED BACKGROUND AND PROSPECTS OF CHILE'S ECONOMIC PROGRAM. THE MINISTER NOTED THAT PRINCIPAL SOURCE OF CHILE'S PROBLEMS, POLITICAL AS WELL AS ECONOMIC, WAS LOW RATE OF ECONOMIC GROWTH THAT PREVAILED OVER LAST FORTY YEARS. THIS HE ASCRIBED TO MISALLOCATION OF RESOURCES IN MISGUIDED IMPORT SUBSTITUTION POLICY CHARACTERIZED BY HIGH TARIFFS, NON-TARIFF BARRIERS, OVERVALUED LOCAL CURRENCY, PRICE CONTROLS AND MOUNTING FOREIGN DEBT. ECONOMIC COLLAPSE DURING HE  
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ALLENDE PERIOD WAS LOGICAL RESULT OF THESE POLICIES.

3. DE CASTRO WENT ON TO DESCRIBE THE SHOCK TREATMENT WHICH BROUGHT CHILE'S INTERNATIONAL PAYMENTS INTO BALANCE, AND WHICH BROUGHT RATE OF INFLATION FROM 376 PERCENT IN 1974 TO 63.5 PERCENT BY END OF 1977. HE CONCLUDED WITH EXPLANATION OF PRESENT EFFORTS TO TURN CHILEAN ECONOMY AROUND TO FREE MARKET ORIENTATION, THROUGH

REDUCTION OF TARIFFS AND GOVERNMENT INTERVENTION, AND REALLOCATION OF RESOURCES TO AREAS WHERE CHILE ENJOYED REAL ADVANTAGES. REGARDING SOCIAL COSTS, HE NOTED THAT CHILE, A BASICALLY MIDDLE-CLASS COUNTRY, COULD NOT REDISTRIBUTE INCOME TO THE POOR EXCEPT AT THE EXPENSE OF ITS PRODUCTIVE MIDDLE CLASS. THE CONTINUED GROWTH OF NON-TRADITIONAL (NON-COPPER) EXPORTS WOULD BE THE BASIS FOR GREATER EMPLOYMENT AND PROSPERITY FOR ALL CHILEANS, ACCORDING TO DE CASTRO.

4. FOLLOWING DE CASTRO'S WELL-RECEIVED PRESENTATION, CODEL BROKE UP INTO THREE GROUPS, WITH CHARIMAN MOORHEAD LEADING THE FIRST GROUP WHICH INCLUDED CONGRESSMAN BROWN TO THE CENTRAL BANK. AFTER SORTING OUT THE DIFFERENCES BETWEEN THE US AND CHILEAN CONCEPT OF CENTRAL BANKING, THE DISCUSSION FOCUSED ON THE PERFORMANCE OF DOMESTIC INTEREST RATES, U.S. COMMERCIAL BANK LENDING AND MONETARY CONTROL MECHANISMS. BANK PRESIDENT ALVAOR BARDON NOTED THAT THE CENTRAL BANK OF CHILE WAS SUBORDINATE TO THE MINISTRY OF FINANCE. MONETARY POLICY IS ARTICULATED BY A COORDINATING GROUP INCLUDING OFFICIALS FROM BOTH INSTITUTIONS. BANK VP DE LA CUADRA EXPLAINED THE THREE MAJOR MECHANISMS USED BY THE BANK TO CONTROL THE MONEY: THE LEGAL RESERVE REQUIREMENTS, OPEN MARKET, AND REDISCOUNT OPERATIONS. DESPITE THE GROWTH OF THE MONEY SUPPLY IN 1977 SHORT-TERM NOMINAL INTEREST RATES REACHED 134 PERCENT. AS A RESULT, THE BANK IS RECONSIDERING THE LIMITATIONS ON SHORT-TERM FOREIGN BORROWING. BANK OFFICIALS BELIEVE SUCH AN INCREASE COULD HAVE POSITIVE EFFECTS ON LOWERING THE INTEREST LIMITED OFFICIAL USE

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RATES WITHOUT JEOPARDIZING THE DECLINING INFLATION RATE THROUGH AN EXCESSIVE INCREASE IN LIQUIDITY. WITH REGARD TO FOREIGN BANK LENDING, BARDON NOTED THE KEY ROLE OF U.S. COMMERCIAL BANKS IN LENDING TO CHILE, ESPECIALLY THE MAJOR SYNDICATES LED BY MORGAN GUARANTY, CHEMICAL, AND WELLS FARGO.

5. ODEPLAN (PLANNING ORGANIZATION). CONGRESSMEN CONTE, LA FALCE AND WILSON WERE RECEIVED AT ODEPLAN (THE ECONOMIC PLANNING ORGANIZATION) BY THE DIRECTOR, ROBERTO KELLY, AND HIS VERY ARTICULATE DEPUTY, MIGULE KAST. ALL APPEARED IMPRESSED WITH THE HOSPITALITY EXTENDED BY KELLY AND KAST'S PRESENTATION OF STEPS THE GOC HAS TAKEN TO ALLOCATE MORE FAIRLY FUNDS EXPENDED IN EDUCATION, HOUSING, AND HEALTH. THE CONGRESSMEN EXPRESSED SURPRISE AT THESE POSITIVE MEASURES AND REQUESTED THAT KELLY PROVIDE THEM WITH COLLABORATING STATISTICS AND MATERIALS SO THAT THEY MIGHT PRESENT IN THE U.S. THE TRUE PICTURE OF GOC ADVANCES IN THE SOCIAL AREA.

6. PRO CHILE (EXPORT PROMOTION ORGANIZATION). CONGRESSMEN STANTON, HYDN AND MINISH VISITED WITH ANDRES CONCHA, SECRETARY-GENERAL OF PRO CHILE. DISCUSSION CENTERED ON CHILE'S EXPORT DIVERSIFICATION AND EXPANSION AND THEN BROADENED TO TRADE-RELATED POLITICAL MATTERS. CONGRESSMAN HYDE, FOR EXAMPLE WAS

INTERESTED IN CHILE'S DEPENDENCE ON THE PANAMA CONAL AND WHETHER CONCHA SAW RISKS IN PUTTING IT UNDER PANAMIAN JURISDICTION. OTHERS ASKED IF CHILE'S EXPORT EFFORTS WERE HINDERED BY ANTI-GOC FEELINGS IN SOME COUNTRIES. LASTING ALMOST AN HOUR, THE MEETING WAS AMIABLE AND GAVE THE CODEL FURTHER INSIGHTS INTO CHILE'S ECONOMIC PERFORMANCE.

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INFO OCT-01 ARA-10 ISO-00 SS-15 NSC-06 AID-01 /036 W  
-----109160 102209Z /63

R 102034Z JAN 78  
FM AMEMBASSY SANTIAGO  
TO SECSTATE WASHDC 7747  
INFO AMEMBASSY BRASILIA  
AMEMBASSY SAN JOSE

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7. AMBASSADOR'S RECEPTION. IN ADDITION TO DE CASTRO AND OTHER REPRESENTATIVES OF THE GOC ECONOMIC TEAM, RECEPTION INCLUDED REPRESENTATIVES OF HUMAN RIGHTS ORGANIZATIONS, AND OF THE POLITICAL OPPOSITION. INTERNATIONAL RED CROSS REPRESENTATIVE WERNER RUFLI, ICEM DIRECTOR KOZAK AND SEVERAL ACTIVIST PRIESTS PREDOMINATED IN THE FORMER GROUP. THE CHURCH HIERARCHY AND VICARIATE DID NOT ATTEND BECAUSE OF THEIR DESIRE NOT TO BE SEEN AS INVOLVED WITH FOREIGN POLITICAL FIGURES ON THE HEELS OF THE PLEBISCITE. FORMER CHRISTIAN DEMOCRAT (PDC) MINISTER OF JUSTICE MAXIMO PACHECO, PDC INTERNATIONAL RELATIONS HEAD JUAN HAMILTON, PDC YOUTH LEADER (AND PROSPECTIVE IVP GRANTEE) GUILLERMO YUNGE, LEADING PDC ECONOMIST ALEJANDRO FOXLEY AND SEVERAL OPPOSITION LABOR LEADERS DID ATTEND.

8. IDB INSPECTION. ON SATURDAY, JANUARY 7, THE GROUP VISITED THE FOLLOWING PROJECTS:

A) LOW INCOME HOUSING. THE LOW INCOME HOUSING PROJECT ESTANQUE WAS IN PART FINANCED BY IDB SOFT LOAN. NEW HOUSES WILL BE SOLD TO LOW INCOME FAMILIES FROM ADJACENT SLUM AT SUBSIDIZED PRICES ON ACCESSIBLE TERMS. LARGE PART OF THE WORKERS ON THIS PROJECT WERE DRAWN FROM UNSKILLED UNEMPLOYMENT ROLES.

B) TECHNICAL TRAINING FACILITY. NEW LABORATORIES AND CLASSROOMS, ON THE CAMPUS OF CATHOLIC UNIVERSITY ENGINEERING

SCHOOL, ARE BEING CONSTRUCTED WITH AN IDB LOAN.  
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C) COOPERATIVE SUPERMARKET. A BRANCH OUTLET OF A COOPERATIVE  
RETAIL SUPERMARKET (UNICOOP) LOCATED IN A WORKING CLASS  
NEIGHBORHOOD, UNICOOP ORIGINALLY WAS FINANCED BY A SOFT LOAN OF IDB.

9. PRESS AND PUBLICITY. CODEL RECEIVED EXTENSIVE AND FAVORABLE  
PUBLICITY, GIVEN THE SHORT DURATION OF THE VISIT. USIS DISTRIBUTED  
A BULLETIN TO COMMUNICATIONS MEDIA SHORTLY BEFORE THE CODEL'S  
ARRIVAL AND ARRANGED FOR TRANSLATION AND DISTRIBUTION OF THE  
CODEL'S ARRIVAL STATEMENT. BOTH ITEMS WERE CARRIED BY ALL  
PRINCIPAL NEWSPAPERS THE NEXT DAY. INTERVIEWS WITH CONGRESSMEN  
MOORHEAD, STANTON AND HYDE BY THE LOCAL PRESS WERE ALSO PUBLISHED  
AND A USIS CLARIFICATION OF A MINOR MISQUOTATION OF CHAIRMAN  
MOORHEAD WAS CARRIED BY PRINCIPAL NEWSPAPERS. NONE OF THE COVERAGE  
WAS POLEMICAL IN TONE IN ANY WAY.

LANDAU

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## Message Attributes

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